The MORTGAGE BANKER

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Business — 1942

By FREDERICK P. CHAMP
President, Mortgage Bankers Association of America

SINCE the Mortgage Bankers Association of America is a business organization, and we who make up its membership are identified as business men, it is fitting that we appraise our position as 1942 begins.

The year ahead will test us all as we never have been tested before . . . as perhaps no generation of Americans ever was tested. Confidence . . . Courage . . . Character! These and some other old fashioned virtues really are the needs of the hour. If I understand the spirit of those in our membership, who may be said to represent the Association, I know we are not lacking in them.

Beyond the framework of our country's plan for the mobilization of its manpower, each for himself must determine wherein and to what extent he will contribute to the accomplishment of the great objective, which is, simply, to make safe for all time the liberties without which life would not be worth living. We of the MBA are resolved, individually and collectively, to do all that lies within us to support the national effort without reserve.

Personal ambitions and objectives have been adjourned for the period of the war, which we fervently hope, may be of shorter duration than now appears likely. In another "critical" period, a great patriot, speaking for himself and associates, pledged "Our lives, our fortunes, and our sacred honor." We in 1942 can do no less.

We won't have—we cannot have—business as usual; but we must have—we shall have—business. Locally and nationally our normal activities must be maintained at the highest level consistent with achieving the great objective. There is no other way to win the war or win the peace.

We who are identified with mortgage banking have the opportunity and the obligation to make a special contribution. On the one hand, we should and will contribute to the great effort to finance the defense-war program. Wars are battles of dollars as well as bullets. Reports being received from all parts of the country show that our members are rendering important service in the campaign to sell Defense Savings Bonds and Stamps. We shall continue to respond to the nation's need for essential defense housing to the limit that private capital can provide it.

On the other hand our original obligation still holds. Nothing that has happened, or will, can "black out" the need for the service we as mortgage bankers perform. It is to sustain, yes, to maintain and expand on a sound basis and within the available critical materials above defense and war needs, the ownership of homes, business structures and factories. Let's not forget the importance of home ownership as an influence for national morale. Let's not forget property

(Continued on page 8)

The MORTGAGE BUSINESS *in* PHILADELPHIA

The first of a series of articles on mortgage banking in American cities

By M. MARK WATKINS

THE mortgage business in Philadelphia is in a healthier condition today than it has been at any time since Robert Morris financed the American Revolution. Philadelphia, third largest city in the nation, was founded by William Penn in 1682. The 1940 census gives the City proper a population of 1,935,086, spread over a huge area of about 130 square miles.

Like every large city, Philadelphia has a suburban ring of townships. This ring includes parts of Delaware, Montgomery, Chester, and Bucks counties. Included are several townships on the New Jersey shore, so that in all the Philadelphia area has an approximate population of 3,200,000. In these times, the Quaker City is being referred to as the "Center of Defense Industries," but will soon be known as the "Center of War Industries." Her chief strength as a defense area lies in the fact that her industries cover a range of more than 200 lines of employment not concentrated in one or two locations but rather well distributed. This puts Philadelphia in a very favorable position from the standpoint of defense housing.

Philadelphia has always been known as "The City of Homes." This title is justified because out of some 450,000 buildings of all types in the city proper, more than 425,000 dwellings are single-family homes. These are for the most part two-story houses of the detached, semi-detached, and "row house" types.

The "row" house is as characteristic of Philadelphia as the famous Philadelphia Scrapple and Pepper Pot. It is estimated that of a total of 425,000 single family dwellings, nearly 300,000 are of the "row" type. About 50 per cent are owner-occupied and the greater number of these, of course, have first mortgages.

For those not initiated in the meaning of "row" houses, they are built in continuous lines between two streets in such a way as to produce two solid blocks, having as many as 24 inside units and two end houses known as "gable ends."

EVERY MBA member and every mortgage banker has been impressed at times, as we have, with the fact that the mortgage business isn't exactly the same thing in every city. One reason is that the innumerable indirect and related factors of mortgage banking tend to take on different characteristics in different cities. Here begins a round-up of leading American cities and what mortgage banking is like in each one. We think you will find these reports enlightening and will enjoy comparing the data submitted with that of your own city. The next article in the series will appear in an early issue. The author is vice president of the Peoples Bond & Mortgage Co. in Philadelphia.

Mortgagees and operative builders can realize the economy element in the cost of the construction of "row" houses, while mortgagors realize the economy in heating and maintenance.

Why Philadelphians prefer living in "row" houses is something visitors from other parts of the country cannot understand. Perhaps the best explanation is that the "row" house is an inherited tradition carried over from England by the early settlers and so deeply engrained as to become an integral part of its mode of living. Like Topsy in "Uncle Tom's Cabin," it just "growed."

BUILDING TRENDS DURING THE PAST 15 YEARS

The best way of gauging the building trends in a city like Philadelphia is to consider the construction rate of single-family dwellings. According to the Bureau of Building Inspection, the number of single-family dwellings constructed in Philadelphia County between 1925 and 1941 ran as follows:

YEAR	NUMBER OF HOUSES	YEAR	NUMBER OF HOUSES
1925	12,598	1934	333
1926	8,559	1935	1,011
1927	8,967	1936	2,079
1928	7,692	1937	2,165
1929	4,167	1938	1,983
1930	1,261	1939	3,158
1931	870	1940	3,643
1932	498	1941	5,500*
1933	460	--	--

*Estimated in 11 months.

The building activity in 1925 was the result of the boom. The ultimate overbuilding caused many vacancies and new building progressively declined to 1929. Just about the time the stock market was beginning to trend downward, the suburban areas around Philadelphia "found themselves," and that was the start of a definite trend from the urban to the suburban. Therefore, in the early 1930's, Philadelphia was hit in two ways: first by the depression and then by the increased building of suburban homes. For the next five years, home building took an even greater dive. There were only an average of 700 houses built each year in the entire city between 1930 and 1935. In the latter part of 1935, the first effects of the FHA were beginning to become apparent and were reflected in an increase in home construction. From 1935 until today, the building curve took a decided upward trend, and it looks as though 1941 was the biggest year in mortgage financing since the predepression era. The 1941 building total will show that more than two-thirds of all money spent for all types of construction was for single homes.

Philadelphia is not an apartment house city. Philadelphians generally prefer single-family houses. It was estimated a few years ago that only 15 per cent of the population lived in apartment houses.

However, in the period of three years between 1927 and 1930, apartment

houses were built in great numbers. Conforming with the nation's hustle and bustle of those days, with very few exceptions, they were built too rapidly to be of enduring quality, as subsequent years have shown. 1930 marked the peak of apartment house construction in Philadelphia. We had, at that time, about 650 apartment houses with an assessed value of at least $25,000 each. Renovated properties, of course, were not included in the survey. Since then, construction of apartment houses has slowed to a walk. When FHA Section 207, Title 2 came into existence, several large apartment buildings were erected. One outstanding non-FHA $4,000,000 project, known as 2601 Parkway and containing 506 apartments, was built in this period. The total apartment space available today can be roughly estimated at 30,000 units.

Much Remodeling Done

Aside from the inherent tendency of the Philadelphian to prefer a single-family dwelling to an apartment house, the tendency for further development was arrested by the conversion of old three-story houses located adjacent to the center of the city. These old homes were converted into small apartments suitable for two or three families. Within the past five years, over a thousand homes were converted.

There are other factors to discourage additional apartment house building, not the least of these being the development of inexpensive detached houses in the suburban area of Philadelphia. Even though apartment house occupancy now in Philadelphia is estimated at 95 per cent, there is no conclusive evidence at this time of an anticipated apartment house shortage.

In the realm of office buildings, according to the current report of the Building Owners and Managers Association of Philadelphia, office space today totals 10,390,000 square feet. In order to qualify for an office building in the survey made, a structure used for office space had to be in excess of four stories and provided with vertical transportation.

From 1927 to 1932, Philadelphia, like other large cities, built an excess of office buildings. Prior to 1930, the normal rate of new office space absorption was at the rate of 400,000 square feet per year. However, in May, 1931, there were 1,125,000 square feet of new office space put on the market, and in 1932 an additional 700,000 square feet. During the same period, however, the demand for office space was dipping to new lows, striking the bottom in May, 1934, when the ocupancy hit an all time-low of 66.62 per cent.

As of October, 1941, there was still an excess of office space in Philadelphia. The present occupancy rate is 79.5 per cent, highest reached since pre-depression years. This compares with 85.14 per cent for the nation as a whole.

The large increase in the number of new homes built during the past five years has had a beneficial effect on the development of commercial centers. In a number of instances, new commercial centers have been built by the home builders, in order to enhance the value of the homes in their developments. As a rule, these commercial centers carried out a general design which harmonized with the neighborhood, thus contributing to its stability and raising its general tone. In the city's principal business center there have been comparatively few new commercial developments. There has been no apparent need for them. On the other hand, during the depression years several of the leading department stores opened branch stores in the suburbs in order to compensate for the loss of trade due to decentralization.

Face Lifting for Stores

However, during the past five years a considerable amount of face-lifting on old establishments has been going on. The street fronts of staid and conservative stores have been supplanted with exteriors of modern design, boasting spacious eye-arresting windows and a generous use of structural glass, chromium and stainless steel. Quite a large number also streamlined their interiors, sporting the latest in indirect lighting and air conditioning. On the whole, the central commercial section of Philadelphia, which had been neglected during the depression years, is beginning to take on new life.

As in other large cities, department stores in 1941 did a record business. To compensate for poor parking facilities, the stores were open at night and free parking was provided. Furthermore, the streets leading to the center of the city are being constantly widened and improved, so that heavy traffic can be carried with less congestion. The Delaware River Bridge which spans the Delaware to the New Jersey shore draws a considerable amount of business from that state's semi-rural communities immediately across the River and within a few miles of the central business portion of this city. Some of these New Jersey communities are miles closer to Philadelphia's central business district than many outlying areas of Philadelphia proper.

Parking Lots Regulated

Recently, the City has passed constructive ordinances regulating the conduct of the business of parking lots. They have been improved in physical appearances, and are taxed on the business they do, naturally adding to the city's tax collections.

REAL ESTATE REVENUES, COLLECTIONS AND DELINQUENCIES

The tax situation in Philadelphia is favorable. According to the Department of Receiver of Taxes, the tax levy for 1941 is $42,439,349.81, and it is estimated that more than 92 per cent of the 1941 taxes were paid in by the end of the year. There is a possibility that the delinquent taxes will not be in excess of 7 per cent.

This presents a healthy tax picture in comparison with the one of eight years ago. In 1933, the total delinquency was close to $40,000,000, amounting to 28½ per cent of the total tax levy for the year. Today, the total delinquency in City taxes is approximately $12,000,000 and 50 per cent of it is being paid in installment payments under the various Acts of Assembly.

Philadelphia is relatively low in tax rates and is 11th among the nineteen largest cities in the United States. The current rate in Philadelphia is $28.75 per thousand dollars of valuation and the assessment on new properties runs about 80 per cent of the selling price.

The Office of the Tax Receiver is doing an excellent job in collecting the existing delinquency of $12,000,000. As

the frozen assets of ground in the southern and northeastern sections of the City should be discounted, the total liquid asset of about $5,000,000 would be all that would remain uncollectable — a very small delinquency for a city like Philadelphia.

Delinquent Tax Outlook

It can be stated with reasonable safety that unless we have an unpredictably severe slump after the war, the delinquent tax debt in this city will be nearly all wiped out. It is freely admitted that the monthly amortized mortgages and the escrowing of taxes is responsible to a great degree for the reduction in tax delinquency.

PRINCIPAL TYPES OF MORTGAGES

There can be little doubt that the FHA single mortgage plan with monthly amortization has had a most profound influence in revolutionizing the mortgage practice in the Quaker City.

Although the National Housing Act was passed on June 27, 1934, Philadelphia did not receive its stimulation from FHA until the following Spring when the federal agency's activities were reflected in the increased number of new houses built as compared with the previous year. It can be safely estimated that during the past three years, easily 75 per cent of all mortgages created on the new houses constructed in the Philadelphia area were FHA insured mortgages.

The following figures which were recently made available through the local FHA office show the prominent role FHA played in stimulating new construction under Title 2 of Section 203:

The total number of mortgages insured by the FHA in metropolitan Philadelphia to June, 1941 was 23,859, representing a grand total of $98,500,000. The above figures when broken down over the five counties comprising metropolitan Philadelphia are as follows:

County	*Number of Mortgages*	*Total in Dollars*
Philadelphia	13,686	$49,891,522
Delaware	7,023	32,240,435
Chester	156	720,350
Montgomery	2,655	14,178,320
Bucks	359	1,515,514
Total	23,879	$98,546.141

Estimated to the end of 1941, it can be safely predicted that the total number of Title 2 mortgages which will be insured by the FHA in the metropolitan area of Philadelphia, would exceed 27,000, for a total of approximately $110,000,000.

Because of priorities and the war, it is inconceivable that the present rate of FHA growth can be expected to continue in 1942.

Building and loan associations have always played an important part in the mortgage business in the city, because they were the principal and virtually the only known sources for second mortgages. Philadelphia is the mother city of building and loan associations in the United States. The first building and loan association was organized in Philadelphia in 1831. At the peak, there were approximately 3,800 building and loan associations in metropolitan Philadelphia with estimated assets in excess of $800,000,000. They were particularly badly hit by the depression because of their portfolios of second mortgages.

Today, their number has been greatly reduced, and operating over approximately the same area, there are only about 600 savings, building and loan associations left and they all deal exclusively in first mortgages. Of the 600, 32 are federal and 39 are state chartered, federally-insured. The present trend is toward fewer but larger associations with the more active ones acquiring first floor business locations with full time managers.

What the S. & L.'s Are Doing

Savings, building and loan associations are permitted to loan not in excess of 80 per cent of appraised or fair market value, with the result that with the curtailment of new construction, S., B. & L. mortgages are now competing with FHA mortgages in refinancing of homes or in financing of all sales on old properties. Furthermore, Federal S., & L's are permitted to use up to 15 per cent of their assets in making loans on commercial properties and on apartments of more than four families. The current rate of interest which S., B. & L. associations charge today is between 5 per cent and 6 per cent, for terms of three to twenty years. The favorite term, however, is 139 months, whereby at the rate of 6 per cent the borrower pays $10 per month per thousand. Most of the building, savings and loan associations are creating monthly amortized mortgages and are collecting monthly for taxes, water rent and fire insurance. The average dividend rate paid by the S., B. & L.'s on savings is approximately 3 per cent.

Big Buyers Predominate

Conventional loans are currently bringing 4½ per cent interest on new construction and 5 per cent on existing construction. As a rule, like FHA conventional loans are set up on a monthly amortized basis. A few of the trust companies are still creating mortgages amortized quarterly or semi-annually, but the prevailing practice today is monthly amortization. The principal purchasers of conventional loans are insurance companies, savings fund societies, and trust companies. There is practically no private money available unless mortgages are very small or the interest rate is in excess of 5 per cent.

WHO ARE THE PRINCIPAL MORTGAGE BUYERS?

These can be classified as follows:

1. **Insurance Companies.**
   a) Local life insurance companies.
   b) Foreign insurance companies operating through local branch offices.
   c) Foreign insurance companies operating through loan correspondence.
2. **Saving fund societies.**
   There are four mutual companies in Philadelphia, all active in the mortgage market.
3. **Mortgage Companies and Banks (with mortgage departments) creating mortgages for investing banks, principally Pennsylvania banks.**
4. **Local Trust Companies.**
5. **Saving and Loan Associations.**

It goes without saying that with such a powerful array of investing institutions with experienced organizations capable of creating and servicing mortgages, the mortgage business in Philadelphia, in view of the decline in new construction, is definitely over-crowded.

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$2,000 Prefabricated Houses May Soon Be Realities

By **WILLIAM V. REED**

THE defense housing projects will produce prefabricated houses to cost no more than $2,000 each.

Many will say: "That's setting the sights too low; no such thing as a $2,000 house exists and I don't care to risk my money on a shoddily built egg crate that will collapse in a couple of years." They are right. A $2,000 house of decent size and construction doesn't exist today, but if the present promise of the prefabrication industry means anything, it will exist before very long.

I dislike the continual comparison that is made between the prefabricated housing industry and the automobile industry, but the analogy is so frequently a good one that it is hard to resist using it again. The automobile industry has been able to sell an automobile to nearly every family in America by producing a better car for less money. When the car was sufficiently good at a sufficiently low price, almost every family bought one.

While housing is basically different, the fact remains that there is a vast untouched market for a better house at less money. The first man who masters the problem of producing such a house will find a pot of gold at the end of his rainbow.

Suppose we have a look at the prefabrication industry and appraise the chances of producing a good $2,000 house. First, what does the industry actually amount to? If I had been asked this question eight years ago when Fortune magazine made a survey of the factory produced houses in this country, I would have been forced to say that mass production of houses was more fiction than fact.

At that time there was only one company producing what could be called a prefabricated house, another company was doing a sizeable volume of business on a pre-cut house, and six additional companies were in various stages of organization (and disorganization).

There were also two or three companies making prefabricated houses for workers in the oil fields and for use as vacation cottages. In addition there were also about eight individuals who had shown enough interest in the subject to merit a reference in Fortune magazine. Their ideas ranged from an air-conditioned prefabricated in which you could sleep without bedclothes, to a house requiring no outside walls and provided with some sort of heat rays to protect the occupants from the weather.

This group of actual or potential house manufacturers and visionaries constituted the nucleus of an industry that had yet to be born. It was hopefully stated at the time that mass production would make four-room houses which had formerly sold for $6,000 to $7,000 with a quarter acre lot available for $4,000 to $5,000. Most of the houses proposed were startling in character. Architecturally they followed unfamiliar shapes. Structurally they involved materials and uses which were entirely new.

It is not surprising that both the public and the financing institutions shied away from them. It is even less surprising when we learn that the manufacturers were unable to get costs down and that prefabrication's most glamorous appeal —low cost—turned out to be a phoney. Seven years later a report of the Temporary National Economic Committee with reference to prefabrication said, "For a number of years attempts have been made to increase the amount of prefabrication in order to reduce the volume of field assemblage. Various forms of resistance have been met, such as lack of acceptance by the building public, lack of cooperation on the part of labor, which fears loss of work through prefabrication, inflexible requirements of building codes, as well as the tendency on the part of many large manufacturers already entrenched in the field to promote their established products in order to protect their investment; hence little progress has been made in the last ten years."

Even in 1940 the picture was not very promising. You may begin to wonder why we should get excited about the possibilities of prefabrication in the future. Well, the most important reason why prefabrication hadn't progressed more by 1940 hasn't been mentioned. There simply wasn't a mass market for a prefabricated house. Nonsense, you say, we were just discussing the enormous market for houses. That is quite true, but that market is dependent upon a high quality, low-priced product. The cost cannot be reduced until mass production on a prefabricated basis has taken place. It's the old story of which comes first, the hen or the egg. The industry wound up in a stalemate.

This is the point at which the defense housing program rescues the heroine of our little drama. The urgent need for defense housing and the special need for houses of demountable construction have broken the vicious circle. Enough of a demand has been created actually to permit the extension of economies of mass production to the housing field. The Division of Defense Housing Coordination is responsible for determining how many defense houses are to be built, where they are to be built, and when they are needed. In localities where the defense activity is of uncertain duration, and where there is no change of integrating the new housing with the normal housing needs of the community after the emergency, the Defense Housing Coordinator has recommended demountable construction. Demountable houses are usually prefabricated. The standards of room sizes, planning, and amenities are the same for demountable houses as for permanent construction.

During the past year, the Division of Defense Housing Co-ordination, has recommended that more than 125,000 houses be built in defense areas with Government money. More than 105,000 of this number are already under construction contract. Nearly 54,000 are ready to be moved into. About 15,000 of the houses thus far recommended are to be of demountable construction.

The author is Director of the Standards Division of the Defense Housing Co-ordinator's office in Washington.

We Need a Closer Home Office and Correspondent Relationship

Some reflections of a mortgage lender on problems important to both correspondent and investor

By **V. S. HALLAUER**

THIS nation has been forced into war and nothing else today is so important as winning that war. The energies of every American must be dedicated to that end.

But other matters that have a bearing on winning the war naturally present themselves and one of them is the question business men everywhere are asking—what is the future of my business?

What is the future of mortgage banking?

The character and type of loans may change but loans will still have to be made. Insurance companies will still receive premiums and will still seek outlets for their funds. The present isn't exactly as we all wish it might be but it certainly is far from disheartening.

It strikes me that insurance companies may lose an important number of their employees to the armed forces and other victory activities. Correspondents in the field are mostly older men beyond the age limit for these activities and, at first glance, I wonder if the home offices aren't going to find that they must put more reliance and responsibility on their field men in the future—to eliminate waste and conserve time and effort.

The continual changes of the past few years in this business of creating acceptable mortgage loans seems to emphasize that a close relationship between correspondent and principal is essential. Local conditions today often change rapidly because of defense and slum clearance projects or municipal developments which the home office or its field men are unable to properly weigh.

The importance of the borrower's moral character is a comparatively new phase of mortgage lending. Years ago money was primarily lent on the basis of the physical security of the loan, but today great importance is given to the individual borrower. This is particularly true in residential loans and it is my opinion that

MR. Hallauer offers here what he believes are some constructive suggestions for a closer and more profitable relationship between institutional investor and mortgage correspondent. He is vice president of Shaw & Francis, Inc. of St. Louis.

the individual characteristics of the borrower should be taken into consideration as an integral part of the mortgage and given weight along with location, type, and age of property. This is difficult for the home office or its field men to do by merely glancing at a credit report or financial statement which may or may not have been prepared to fit this particular application. I can conceive of loans over the legal limit which are far better because of the type of borrower than those slightly less than the limit but where the borrower's reputation is not the best, although, perhaps, a condition not reflected in the commercial report.

There are times when the purchaser of property, due to certain conditions of which the correspondent is aware, is justified in asking for a larger sum than might be prudent in most cases. Thus, taking the mortgage pattern as a whole, a good safe loan can be created.

We who have been lending on residences to the better type of borrowers in amounts averaging around $8,000 find that today, with money becoming much easier, we are constantly being asked to waive prepayment privileges and accept large payments for the purpose of reducing the mortgage. This, I think, proves that we have been careful in the selection of borrowers, but brings up another question of mortgage practice, which again the correspondent is best able to answer intelligently since good will is the biggest asset of a correspondent and his home office.

But returning for the moment to the relationship between the correspondent and his home office, it seems that there is a definite trend by the home companies toward hiring independent appraisers whose valuation is the final determining factor as to whether or not loans should be made. Under present competitive conditions, the majority of our residential loan applications are close to the legal limit of the company for whom we are correspondent. Those of us who have to have independent appraisers' opinions are under continual obligations to these appraisers because we must always get their opinion as to value before we can advise the applicant with some assurance as to the amount of the loan we feel will be satisfactory to the home office.

As an example, we appraise a house at $10,000 and agree to lend Mr. Smith $6,000 or $6,600, depending on the company we are representing, and usually after considerable negotiation get this accepted. We then find that the appraiser's valuation is only $9,700, which is close enough so that either one of us might be correct. Yet the home office will always accept the appraiser's valuation and thereby reduce the loan to $5,800 or $6,300. This often necessitates a cut in the commission (if we have been fortunate enough to secure one) and makes it necessary for us to prepay part of the procurement expenses. Often it is enough to jeopardize the deal so that both home office and correspondent are out their time and effort. Yet who can say which appraisal is correct? In 90 per cent of the cases, the correspondent

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TAX DEPOSIT POLICY

The most common practice among Chicago MBA members regarding tax deposits on conventional loans is that of requiring monthly deposits of one-twelfth of the anticipated tax bill, usually pro-rated from September 1, according to a survey by the Chapter's Taxation Committee headed by David F. Gladish. Forty-seven of the 92 Chapter members now require tax deposits and the study revealed no uniform schedule. Most members say their policy is purely their own but several say theirs had been fixed by their investors and their own office working together. In one instance, the policy was fixed solely by the investor. Mr. Gladish feels that the present day trend is definitely toward adopting some policy to require deposits to take care of accruing taxes but he does not feel that now is the time to set up a definite formula but that the Chapter's study will help any member who may be experiencing difficulties with borrowers in this regard.

Chicago MBA's annual meeting, always one of the important business and financial meetings in Chicago during the winter, is scheduled for February 4th and members will hear an address by Col. C. B. Robbins, manager and general counsel of American Life Convention. Col. Robbins was assistant secretary of war in 1928-29. Following his address officers for the coming year will be elected. The Nominating committee is headed by George H. Dovenmuehle and including Walter L. Cohrs, Bester P. Price, Edgar N. Greenebaum and P. R. Abrams.

V. S. HALLAUER'S ARTICLE

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must pay the appraisal fee which he is unable to collect from the borrower, except in those instances where the loan is finally consummated, and this amounts to a considerable sum during the year.

Where the Income Lies

This method of proceeding undoubtedly puts the correspondent who has to operate in this fashion under considerable handicap as compared with the correspondent who makes his own analysis and submits the loan purely on his own appraisal. I think a majority of correspondents, if they run into doubtful cases as we all do, would be more than willing to call in an outside appraiser to justify his opinion or else prove him wrong. After all, the major portion of our income must come from servicing a volume of satisfactory loans. In most communities, commissions hardly pay for procurement expenses. There is no financial urge to put shaky or border-line loans on the books. It is to the interest of the correspondent to secure loans which will stay on the books for the contracted period with a minimum of collection trouble.

Good will and service are the only commodities a correspondent has with which to build up future business. A dollar from A company has the same value as a dollar from B company. The cost in time, trouble, and money of securing this dollar is of paramount importance to the borrower.

Many home offices do not seem to realize the competitive conditions under which correspondents labor. A few of the insurance companies whose correspondents have been unsuccessful in obtaining a suitable volume of business have opened up direct branch offices with full-time salaried employees and an office staff to secure loans without commission, and in some instances even bear a portion of the procurement expenses. As all the larger companies are after the same type of loans—FHAs, class A conventional residential, and A-1 commercial—this condition seems to be getting more troublesome because the companies with weaker correspondents and branch offices which must justify their existence will continually raise the "ante" in an endeavor to buy business which the successful correspondent has been able to maintain by giving service and through personal ability.

Another phase of the business which I think correspondents should be better informed on is the effect of the insurance commissions of the various states upon the loan portfolios of the home offices. Often when we try to sell a loan that is somewhat unusual, we are told that the insurance commission of the state would throw it out. On the other hand, eventually we may find another insurance company in the same state making the loan which we tried to get our home office to take.

During the past two years at our national conventions and Clinic meetings, we have had the investment officers of various insurance companies meet with us and discuss their problems and I think this has done much to assist and aid the morale of the men in the field. After all, correspondents are salesmen for their home office, and the contact with the home office cannot be too close, even with the members of the Finance Committee. The New York Convention went further than any previous one in bringing out the attitudes of various loan executives.

However, because of existing conditions and with all due respect to the trusteeship which insurance companies shall exercise over the funds under their control, the men in the front line trenches should be taken into their confidence, it seems to me, or we shall eventually find that both the mortgage investment department and the correspondent are on the way out, because of their inability to meet present and ever-changing economic conditions.

Large insurance contracts are written on the basis of one doctor's opinion. When that man dies, there is no salvage. The reverse seems to be true in the process of putting this insurance premium to work—a portion of the income of every insurance company.

All business is having to change and change rapidly to meet new conditions. Mortgage lending is one of the most interesting and fascinating of all types of work, and its continual change challenges our resourcefulness and ability. Let's meet the challenge of today.

BUSINESS—1942

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ownership generally as an agency for national defense. The servicing of loans becomes a patriotic duty, not just a business matter, for it contributes to the soundness of our financial structure and it provides protection for a great segment of investment capital for the long pull ahead.

Fortunate indeed are we that the Association exists to reinforce individual effort. Organized for service and alive to the needs of the hour it meets certain vital needs. To sustain our morale . . . to acquaint us with the interpretation of events that will be arrived at by the best minds in our business . . . to provide a way for mobilizing the manpower and resources of our business for emergency needs . . . to render specific services which each mortgage banker will find increasingly helpful . . . to maintain and sustain an agency which will make a sound contribution toward the reconstruction that will follow the peace . . . to assist our members in adjusting their organizations and procedures to the inevitable turnover in their personnel . . . and, finally, to promote the feeling of comradeship which is the counterpart of that found in those under arms who are fighting our battles.

The MBA recognizes the prudence of preparing for a long war. As a consequence we have not sought to prepare hastily an emergency program. Such a task has been and should be prepared thoughtfully. The activities of the Association that have proved their worth will be continued. Others that commend themselves after due consideration will be undertaken. Constant vigilance will be the keynote of our endeavors. The holding of Mortgage Clinics or Conferences in the key cities of the country will become more necessary than ever by reason of the impact of war. Our convention should be resolved into a hard-hitting business conference trimmed to wartime needs. Our publications should continue to interpret facts and fast-moving developments in terms of our business and the proper and patriotic preservation of its identity in a period necessarily marked by governmental domination of all activities. Our educational activities should be directed toward simplifying the task confronting our members in training new recruits in their staffs and adjusting continuing personnel and procedures to efficient and economical operation during the emergency. In short, it will be our aim to come to grips with the realities of the situation and bring MBA to its membership in an effort to make it more than ever before a blanket insurance policy on a business which is and will continue to be an essential factor in the financial fabric of the nation.

Working together with confidence and courage and with full appreciation of the value of cooperative effort we shall borrow one another's strength and thereby grow in stature as Americans.

PROGRESS OF A NEW CHAPTER

Construction loans or advances during construction have practically ceased to exist in Indianapolis, according to T. N. Meredith, chairman of the Indianapolis MBA. He adds that, in his personal opinion, the contractor, who a year or so ago, was a head foreman and has during the past year been trying to do business on a shoestring with construction money, is a thing of the past.

"The future of the building business," said Meredith, "will be in the hands of contractors who can finance ten or more houses at a time."

During the Indianapolis Chapter's year of existence, members have accomplished several things which they feel have strongly benefitted mortgage banking in that area. Meetings have been addressed by FHA officials who have consulted with members on matters important to them all.

THE MORTGAGE BUSINESS IN PHILADELPHIA

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THE OUTLOOK

Philadelphia, being the hub of a greatly diversified industrial area with its spokes spreading evenly in all directions, ranks among the most important defense areas in the country. This puts Philadelphia in a favored position in the allotment of priorities for defense housing. From the figures available during the first seven months of 1941, Philadelphia was tied for the third place in the number of defense houses built, being topped only by Los Angeles and Detroit. The immediate outlook is that defense home construction will continue in 1942, although not on as large a scale as in 1941. The anticipated curtailment in the number of desirable mortgages combined with the prevailing easy money market, is likely to create a condition of the demand for mortgages exceeding the supply, with the result that still higher premiums are likely to be paid for FHA and conventional loans.

An inevitable lull in mortgage financing is likely to follow, because even though an early end of the war is something to hope and pray for, we had better plan on a hard struggle for three or four years. The anticipated lull, however, should not be without benefits. For one thing, the erstwhile 90 per cent FHA mortgages would become further amortized and therefore better seasoned. In the meantime, the obsolescence of homes and the enforced curtailment of new home building in excess of $6000 would tend to create a shortage of homes which would have to be among the first things on the program in post-war rehabilitation.

It is not likely that Philadelphia will suffer as greatly as some one-industry cities when the inevitable recession sets in. With four huge shipyards in full swing and with hundreds of millions of dollars allotted for new shipbuilding for many years after the national emergency is over, and with over 200 diversified industries returning to peace time production, it is easily understood why we in the Quaker City are not likely to feel the full brunt of the post-war recession.

Furthermore, unlike some one-industry areas, we here do not have nearly the same problem of the migratory defense worker and for that reason do not anticipate a violent post-war adjustment of dwelling occupancy.

Therefore, even though the rapid pace at which the war is now moving and the availability of easy money tend to make the immediate future of the mortgage market unpredictable, it is, nevertheless, reasonable to view the post-war outlook with a great deal of hope and encouragement.